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RUEHWL/AMEMBASSY WELLINGTON 1659  
RUEHCN/AMCONSUL CHENGDU 1595  
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RUEHGH/AMCONSUL SHANGHAI 0639  
RUEHSH/AMCONSUL SHENYANG 5569  
RUEAIIA/CIA WASHDC  
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RHHJJAA/JICPAC HONOLULU HI  
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S E C R E T SECTION 01 OF 03 TAIPEI 004124

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SUBJECT: PRESIDENT CHEN ON DOMESTIC POLITICS AND ARMS  
PROCUREMENT

Classified By: AIT Director Stephen M. Young,  
Reasons: 1.4 (b/d)

11. (S) Summary: During a meeting with President Chen Shui-bian on December 14, the Director expressed hope that the Taiwan government will submit a supplemental defense budget request to the legislature next March to provide funding for PAC-III and to increase defense spending to 2.85 percent of GDP. On the recent mayoral elections, President Chen said he had been confident all along that the DPP would win in Kaohsiung and he believed his campaigning there had made a difference by stimulating the enthusiasm of DPP supporters. Premier Su Tseng-chang had originally planned to resign, Chen noted, but changed his mind on election day before the results had come in. Chen characterized Frank Hsieh's showing in Taipei as credible but not outstanding, and said it is too early to determine the DPP's presidential candidate for 2008. Chen predicted that the split between KMT Chairman Ma Ying-jeou and LY Speaker Wang Jin-pyng (KMT) will become increasingly serious in the first half of 2007. End Summary.

#### Arms Procurement

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12. (S) The Director met with President Chen Shui-bian at the Presidential Office on December 14 to discuss bilateral issues and the domestic political situation following the December 9 mayoral elections in which the ruling Democratic Progressive Party (DPP) won Kaohsiung and the Kuomintang (KMT) Taipei. Noting he had recently discussed arms procurement with Ma Ying-jeou, Wang Jin-pyng, and Defense Minister Lee Jye, the Director said he was optimistic there will be progress on the issue. The Director added that he had pressed his interlocutors to support a supplementary budget request next March that would include funding for PAC-III and bring the defense budget up to 2.85 percent of GDP. Chen did not respond but nodded, apparently in agreement with this approach.

#### Taipei and Kaohsiung Elections

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13. (S) The DPP and KMT both had problems heading into the December 9 elections, Chen said, and many expected the DPP to suffer a major defeat, leading to party divisions and even collapse, which could affect political stability. The election results allowed the DPP to avoid such a crisis and to breathe a momentary sigh of relief. Both parties still have many problems, however. In these elections, KMT Chairman Ma Ying-jeou faced his biggest test so far, and the numerous criticisms after December 9 have revealed many problems in the KMT. Ma will face even greater difficulties if he is indicted in the case involving his special mayoral allowance. According to KMT rules, Ma's party rights should be suspended if he is indicted. This factor could produce an "earthquake" in the KMT, Chen suggested.

#### Division in the KMT

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14. (S) Differences between Ma and Legislative Yuan Speaker Wang Jin-pyng (KMT) will become more and more pronounced during the first half of 2007, Chen predicted. Wang has never given up his hopes to pursue the KMT presidential nomination. So, Wang will cooperate with Honorary KMT Chairman Lien Chan and People First Party (PFP) Chairman James Soong, and this will create heightened tension with Ma. The KMT will not have fewer problems than the DPP, Chen wryly concluded.

#### Premier Su Tseng-chang

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15. (S) Chen noted that Premier Su Tseng-chang had expected the DPP to lose in Kaohsiung and was intending to resign the

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evening of December 9. Chen, who was fully confident the DPP would prevail in Kaohsiung, had told Su there was no reason for the premier to resign over a local election loss. Chen added that Su's original plan had been to resign regardless of whether the DPP won or lost, and therefore Su had been reluctant to accept Chen's assignment to represent Taiwan at the Gambian presidential inauguration. On election day, however, Su changed his mind. Before the vote count Su informed Straits Exchange Foundation (SEF) Chairman Chang Chun-hsiung that he had decided to stay on as premier, if the President wished, regardless of the election results. Chang had passed this information to President Chen. Chen said he would not let Su resign; the cabinet will stay on.

#### Kaohsiung

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16. (S) Party unity and hard campaigning were important factors in the difficult victory in Kaohsiung, as was successful crisis management responding to a major tour bus accident. The December 3 hand-in-hand rally at the Kaohsiung Love River had unified the DPP and marginalized the Taiwan Solidarity Union, which helped DPP candidate Chen Chu. Despite some opposition within the party, President Chen had participated in the rally and subsequently campaigned almost every day in Kaohsiung, visiting numerous temples and meeting many people. Chen said his visits had helped stimulate the enthusiasm of Green supporters, a key to the victory. Chen recalled how large numbers of shopkeepers and residents in one traditional area had poured out onto the street to greet him. Subsequently, Ma Ying-jeou had visited the same area, but the people had not come out onto the street. Rather, Ma had to knock on doors and go into shops to shake hands. In addition, according to Chen, Ma had neglected to request votes, whereas the President had made a big point of asking people to vote for Chen Chu. According to President Chen, the DPP would have won by a bigger margin in Kaohsiung if the turnout had been higher. Chen also suggested that the voters decided to marginalize the TSU and PFP in the elections on December 9. In Taipei, PFP candidate James Soong was unable to challenge the KMT's Hau Lung-bin, while in Kaohsiung, TSU

candidate Lo Chih-ming's candidacy did not affect Chen Chu.

Frank Hsieh

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17. (S) Frank Hsieh's showing in Taipei was okay, Chen suggested, noting that Hsieh had been expected to turn in a relatively good performance because of his qualifications and the comparative weakness of Hau Lung-bin, his opponent. Noting Hau's 13 percent margin of victory over Hsieh, Chen asserted that this gap could have been cut to less than 10 percent if Hsieh had allowed the President, Premier Su, and other top party leaders to campaign for him, because such campaigning would have stimulated the enthusiasm of Green supporters.

18. (S) Chen said he had persuaded Hsieh to run in Taipei by convincing him that this was the best way he could help Chen Chu in Kaohsiung. Hsieh's main role was to tie the KMT down in Taipei, preventing the KMT from focusing all of its campaign resources on the very close race in Kaohsiung. Hsieh's relatively good showing in Taipei does not mean he will necessarily be the DPP presidential candidate, however. It is too early to answer the question of who will become the DPP's candidate. The original DPP plan was to select a presidential candidate next June or July, Chen noted. Recently, there have been different views on whether the nomination process should be moved to an earlier date. If there is not agreement, the DPP may stick to the original plan, Chen said.

Comment

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19. (S) Chen has regained much of his earlier confidence

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following the victory in Kaohsiung, a victory for which he gives himself substantial credit. In this meeting, Chen was particularly on top of his game when discussing the ins and outs of domestic politics. He clearly relishes the idea of having more than one potential DPP presidential candidate, a situation which will maximize his political influence over the coming months.

YOUNG